



Seattle City Employees' Retirement System

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Cecelia M. Carter, Executive Director

An Open Letter from the Executive Director of SCERS to the Active and Retired Members –

Dear Fellow Members:

By now many of you have heard of and read the April 11, 2010 Seattle Times article regarding the filing of a lawsuit by SCERS against a hedge fund, named Epsilon Global Active Value Fund II, in which SCERS has invested. I have written this open letter to you to help you to understand the nature of the situation. As of this date, the hedge fund continues to report both to the court and to SCERS that as of January 2010, the investment has increased in value. The lawsuit, however, is one of a series of steps that the Retirement Board has taken to protect the investment after events occurred that caused the Board concern. While we are taking this matter very seriously, it is also important to keep in mind that this investment represents a very small percentage of the SCERS portfolio (approximately 1%).

In 2003 and 2004, SCERS invested a total of \$20 million dollars with the hedge fund. Throughout the course of the engagement, SCERS has received account statements indicating the value of the account increasing overall. According to the January 2010 account statement, the account value was reported as \$24,800,000.

However, after SCERS failed to receive expected financial information from the hedge fund, including an independent accounting supporting the reported value, the SCERS investment committee made the decision to redeem the account, meaning that SCERS asked to have its money – the \$24,800,000 – returned. Five days after SCERS' request for return of its investment, Epsilon informed SCERS that it was suspending all such requests for return of investments. In addition, Epsilon refused SCERS' request to meet and explain its actions, and further refused SCERS' request for supporting financial information. These developments, along with other factors, led to the Board's decision to take legal action to protect SCERS' investment.

The Board regularly monitors all SCERS' investments and where necessary, the Board will seek additional information with regard to an investment, as the Board deems appropriate. With regard to Epsilon, it is too soon to know how this case will play out. We are using and will continue to use all legal means necessary to protect our investment.

Respectfully,
Cecelia M. Carter
Executive Director
13 April 2010